

## HOME OFFICE

### Police Pension Scheme

**The Secretary of State for the Home Department (Theresa May):** On 27 March 2012, I issued a written statement to the House concerning remuneration and conditions of service in the police. Within that statement I explained that I would put forward a proposal on long-term reform of police pensions to the Police Negotiating Board, which I did on the same day. In common with changes which have been developed across public service pension schemes, my proposal reflected the principles for reform established last year by the report of the Independent Public Service Pensions Commission, led by Lord Hutton.

My officials have been engaged in detailed and constructive discussions with representatives of the Police Negotiating Board since 27 March, and I have received a number of written representations from the organisations represented. Having considered the outcome of those discussions, and the representations made during this period of consultation, I am announcing today my decision for the Reform Design Framework for police pensions. This framework sets out the Government's final position on the main elements of police pension reform and will form the basis for discussions on points of further detail in moving to implement these changes.

The main parameters of the new scheme design are set out below:

- a. a pension scheme design based on career average revalued earnings;
- b. a provisional accrual rate of 1/55.3 of pensionable earnings each year, subject to agreement on the outstanding issues;
- c. there will be no cap on how much pension can be accrued;
- d. a revaluation rate of active members' benefits in line with the Consumer Prices Index (CPI) + 1.25%;
- e. pensions in payment and deferred benefits to increase in line with CPI;
- f. average member contributions of 13.7% from April 2015. As announced by the Chief Secretary to the Treasury on 20 December 2011, the Government will review the impact of the 2012-13 contribution changes, including the effect of membership opt-outs, before taking final decisions on how future increases will be delivered in 2013-14 and 2014-15, and in the new scheme. Interested parties will have a full opportunity to provide evidence and their views to the Government as part of the review;
- g. flexible retirement from the scheme's minimum pension age of 55, built around the scheme's Normal Pension Age of 60 – for all active members aged 55 or more at retirement, 2015 scheme benefits taken before Normal Pension Age will be actuarially reduced with reference to the 2015 scheme's Normal Pension Age, rather than the deferred pension age (ie state pension age). Those members' benefits will continue to be paid after age 60 at that actuarially reduced level;

All other members will have their 2015 scheme benefits actuarially reduced on a cost neutral basis from the scheme's deferred pension age;

- h. the Normal Pension Age of 60 will be subject to regular review, which will also consider the linked early retirement facility described at (g). These reviews will consider the increasing State Pension Age and any changes to it, alongside evidence from interested parties, including staff associations and employers. It will consider if the Normal Pension Age of 60 remains relevant, taking account of the economical, efficient and effective management of the police service, the changing profile of the workforce and the occupational demands of, and fitness standards for, police officer roles;
- i. this regular review will be informed by scheme data and experience;
- j. late retirement factors for members retiring from active service to be actuarially neutral from Normal Pension Age;
- k. a deferred pension age equal to the individual's State Pension Age;
- l. optional lump sum by commutation at a rate of £12 for every £1 per annum of pension foregone in accordance with HMRC limits and regulations;
- m. abatement in existing schemes to continue;
- n. ill-health retirement benefits to be based on the arrangements in the 2006 scheme;
- o. all other ancillary benefits to be based on those contained in the 2006 scheme;
- p. members rejoining after a period of deferment of less than 5 years can link new service with previous service, as if they had always been an active member;
- q. members transferring between public service schemes would be treated as having continuous active service;
- r. an employer contribution cap and floor, as described in the Reform Design Framework.

#### *Transitional and protection arrangements*

There will be full statutory protection for accrued rights for all members as follows:

- a. all benefits accrued under final salary arrangements will be linked to the member's final salary, in accordance with the rules of the member's current schemes, when they leave the reformed scheme;
- b. full recognition of a member's expectation to double accrual for service accrued under the Police Pension Scheme 1987 ('the 1987 scheme'), so that a member's full continuous pensionable service upon retirement will be used to calculate an averaged accrual rate to be applied to service accrued under the 1987 scheme;
- c. members of the 1987 scheme to be able to access their 1987 scheme benefits when they retire at that scheme's ordinary pension age (i.e. from 30 years' pensionable service; age 50 with 25 or more years' pensionable service; or the member's voluntary retirement age), subject to abatement rules for that scheme. Pensionable service for the purpose of calculating the ordinary pension age will include any continuous pensionable service accrued under both the 1987 scheme and the 2015 scheme;

- d. members of the Police Pension Scheme 2006 ('the 2006 scheme') to be able to access their benefits under that scheme when they retire at that scheme's normal pension age (i.e. age 55);
- e. members will continue to have access to an actuarially assessed commutation factor for benefits accrued under the 1987 scheme.

There will be statutory transitional protection for certain categories of members, as follows:

- a. all active 2006 scheme members who, as of 1 April 2012, have 10 years or less to their current Normal Pension Age (i.e. age 55) will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This protection will be achieved by the member remaining in their current scheme until they retire;
- b. all active 1987 scheme members who, as of 1 April 2012, have 10 years or less to age 55 or have 10 years or less to age 48 and are 10 years or less from a maximum unreduced pension, will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This protection will be achieved by those members remaining in their current scheme until they retire;
- c. there will be a further period of tapered protection for up to 4 years for scheme members. Members who are within 4 years of qualifying for transitional protection, as of 1 April 2012, will have limited protection so that on average for every month closer to qualifying for transitional protection they gain about 53 days of protection. The period of protected service for any member under these tapering arrangements will have finished by 31 March 2022. At the end of the protected period, they will be transferred into the new pension scheme arrangements. Further details on how the tapered protection will apply are set out in the Reform Design Framework.

*Areas for further detailed discussion*

As set out in the Reform Design Framework, there will be further discussion on specific areas of detail, responding in part to issues raised during consultation with the Police Negotiating Board. In particular there will be further consideration of equalities issues that have been identified, or any which may be identified during further discussion, as well as arrangements to ensure compatibility between the new scheme design and recognised existing or future schemes for police officers exiting the service before Normal Pension Age.

I believe this represents a fair outcome, reflecting the range of issues raised during consultation on my original proposal. This will continue to offer valuable pension arrangements for police officers which will be affordable and sustainable in the future.

The Government Actuary's Department has confirmed that this design does not exceed the cost ceiling set by the Government in my proposal of 27 March. Copies of the Reform Design Framework and the Government Actuary's Department verification report have been placed in the Library of both Houses.